

DRUMMOND COAL

BACKGROUND

Santee Cooper has an Executive Fuel Committee consisting of in-house legal, procurement, finance and contract people. The committee regularly evaluates proposals, engages in forecasts of future fuel needs and practices. It is Staff's understanding that this committee was created in the early 1990s after allegations were brought against a Santee Cooper employee and a Kentucky coal company president regarding the procurement of coal.

Maybank Shipping was considering a new operation on Cooper River to receive foreign coal. In order to be successful, it needed to handle a fairly large volume. (See, Pat Runey memo). Drummond is a major importer of foreign coal and owns mining operations in Colombia, South America.

In November 2003, Santee Cooper tested 30,000 pounds of Drummond's Colombia coal. Test result showed a low BTU compared to the typical coal purchased by Santee Cooper. Drummond thought that the coal could help with a reduction to NOx emissions, but that did not prove the case with the test. At some point thereafter, Drummond wants a retest of 60,000 pounds with his people present. Santee Cooper was receptive to another test; but, Drummond did not submit a new proposal for the retest. A meeting was held February 6, 2004. (See, Runey memo)

FEBRUARY 6, 2004 MEETING:

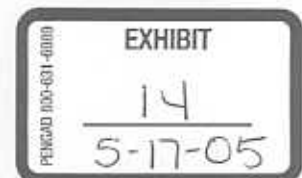
A meeting is held with Maybank and Drummond representatives, Santee Cooper's fuel procurement people, Richard Coen and Guerry Green to discuss transporting and purchasing foreign coal. It is not clear how this meeting came about. Staff has been unable to locate any document to give this information. Staff has learned that Director Coen called the meeting.

Drummond indicated at the meeting that it might have some coal later in 2004 for additional testing. Santee Cooper stated that it was ready to retest the coal and suggested that Drummond and Maybank Shipping consider the transportation of imported coals and petcoke. Drummond was invited to provide a proposal for shipping coal for testing purposes.

After the meeting, Santee people pointed out to the two directors that Drummond offered coal for \$2.65 per ton more than was the lowest domestic coal. It was also pointed out to them that imported coal does not qualify for synfuel credits.

FEBRUARY 20, 2004 MEETING:

Pat Runey meets with Drummond representative who indicates that Drummond would not have enough coal to retest in 2004.



MARCH 8, 2004:

Jack Maybank called Pat Runey and indicated that Drummond would like to provide an offer to supply coal in 2005.

MARCH 23, 2004:

Santee Cooper receives a spot coal proposal from Drummond for 2005 and 2006. The offer exceeded spot market price by approximately \$9.00/ton and was valid for only six days. Santee Cooper did not accept but agreed to retest in 2005. (See, Runey memo.)

ISSUES:

Do directors routinely attend meetings where potential coal + transportation deals are being explored? This appears to indicate directors are getting involved with the day-to-day operations of Santee Cooper and appears to indicate an effort to influence management decisions on complex and important items.